



GOMB

KEY BUDGET DRIVER FRAMEWORK

Infrastructure: Capital Improvement

Maintaining Utah's competitive edge and quality of life requires that we proactively manage and address the multiple demands being placed on limited resources—the taxpayer dollar. Utah's growing and changing population along with new dynamics in our revenue streams places an increased demand on everything from infrastructure to education and the state's natural resources to our correctional system. Reacting to new demands and changes within the economy without a proactive approach to budget design and strategy could potentially leave Utah vulnerable to a diminished future prosperity.

*For Utah, there are six key elements that drive approximately 80 percent of expenditures: Corrections, Employee Compensation and Liabilities, Higher Education, Infrastructure (transportation, buildings, and debt), Medicaid, and Public Education. The ability to develop sound planning strategies and to resolve the challenges within these key areas is fundamental to a thriving economy. These planning strategies, or what we in GOMB refer to as **key budget drivers**, have been developed in consultation with subject-matter experts and key stakeholders.*

Overview of Capital Improvement Budget Driver

Utah owns approximately 42 million square feet of facility space with an estimated replacement value of \$9.1 billion. Based on the most recent facilities condition assessment program report, there are approximately \$439 million in immediate capital improvement needs and over \$1.8 billion over the next ten years. The state's capital improvement program is the main source of funding for addressing these needs and state statute sets annual funding at 1.1 percent of the replacement value of state-owned buildings. This amounts to approximately \$95 million annually; however, the legislature has not always appropriated the full amount. The state's current capital improvement funding requirement and actual appropriations will not address all of the immediate repairs that have been identified. National studies suggest higher levels of funding—in the range of 2-4 percent of the replacement value. While improvements to existing buildings are continually underfunded, new buildings are constructed nearly every year. Over the last decade, approximately \$1.5 billion have been spent on state-funded capital development projects. For the 2014 General Legislative Session, over \$650 million of state funds were requested for capital development projects. Utah's population is expected to increase over 60 percent by 2040 which will put great pressure on the existing building infrastructure and will increase the demand for new state buildings.

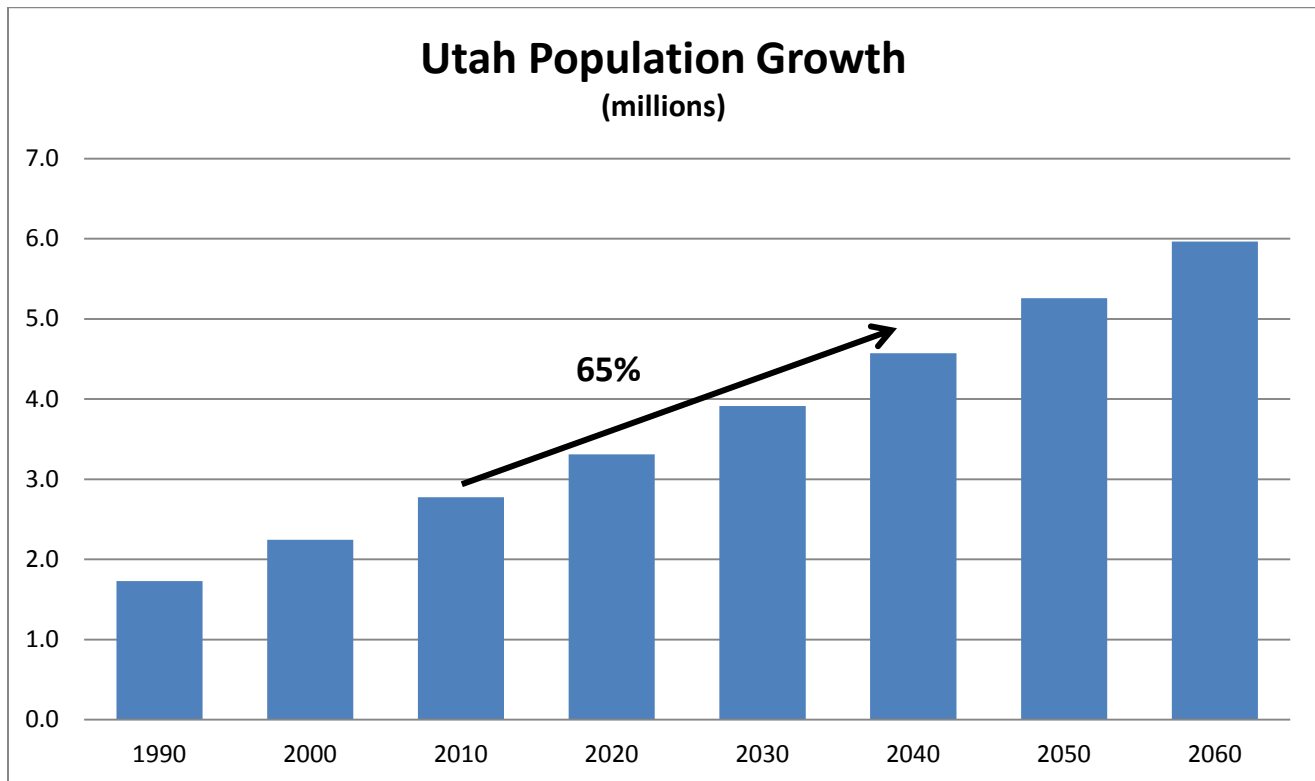
Objectives of Capital Improvement Policy and Budget Decisions

- Decisions that support the maintenance of existing buildings and plans that support future growth
- Priority should be given to the maintenance of the existing buildings over the development of new buildings – delayed maintenance results in more costly repairs
- Create stable, long-term funding sources that will meet current and future demands
- Encourage entities to make sustainable and responsible decisions around building maintenance

Significant Issues, Potential Challenges and Risks

Population Growth

Based on U.S. Census data, from 2010 to 2012, Utah had the third largest population growth among states at 3.63 percent. This type of growth is expected to continue over the next few decades resulting in a population of nearly 6 million in 2060—more than double the current population. Over the next three decades, population growth is estimated to increase over 65 percent.

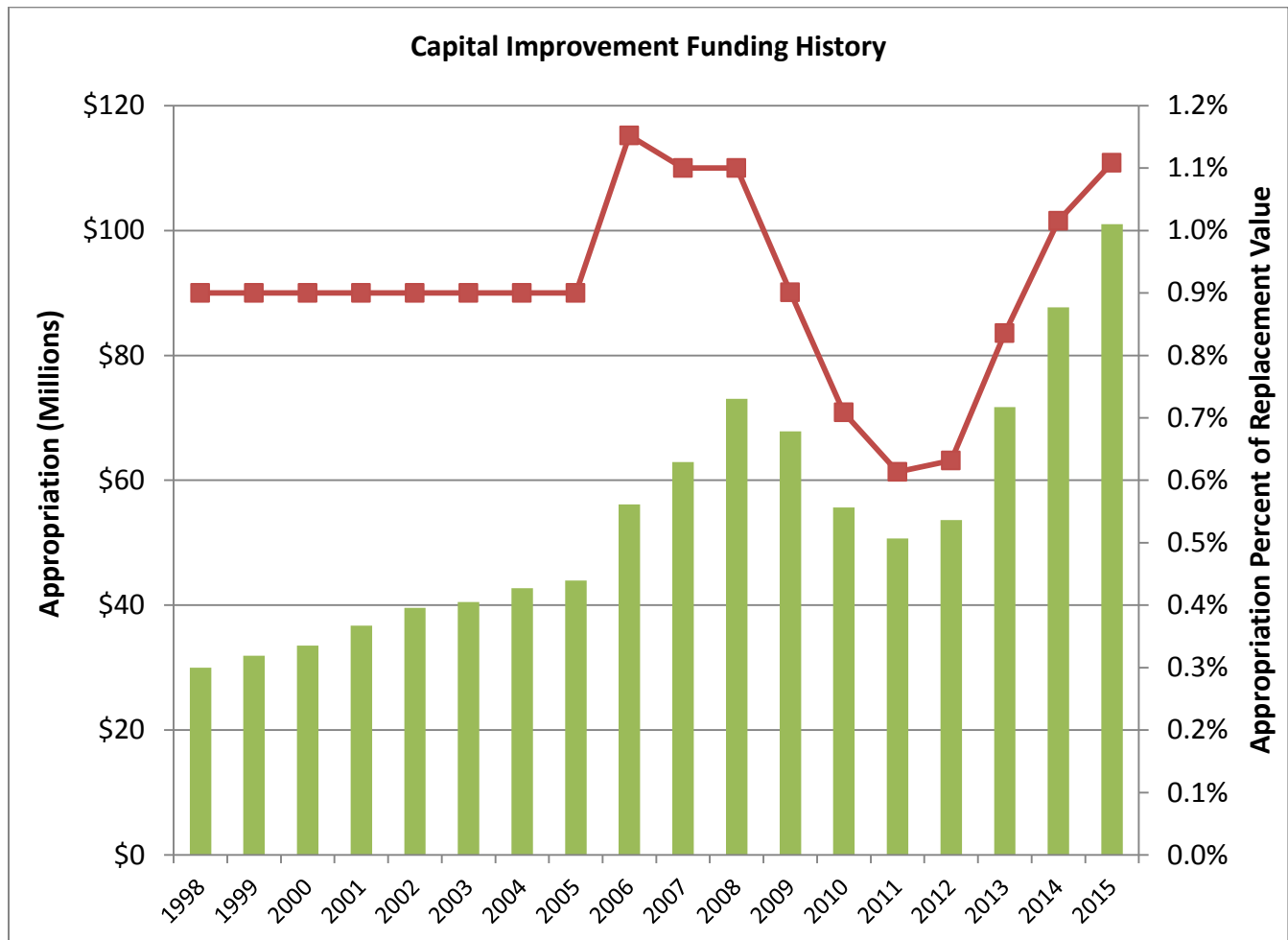


This significant upsurge will add increasing strain on Utah's existing buildings and will require additional capacity to accommodate the nearly 1.8 million more people that will live in Utah.

Capital Improvements

Capital improvements are defined in statute as remodeling, alteration, replacement, or repairs of less than \$2.5 million or the construction of a new facility at less than \$500,000. The Division of Facilities Construction and Management, under the direction of the State Building Board, uses capital improvement funds to make repairs to facilities and to replace worn equipment. Examples include repairs to utility tunnels, electrical systems, roofs, and parking lots. Utah statute requires the legislature to fund capital improvements at a level equal to 1.1 percent of the replacement value of existing state buildings and at 0.9 percent during budget deficits before approving new capital development projects. The following chart displays capital improvement funding for FY 1998 to 2014 and the Governor's recommendation for FY 2015. The green bars represent appropriations and are measured on the left in

millions of dollars. The red line represents the appropriations percent of replacement value and is measured on the right.

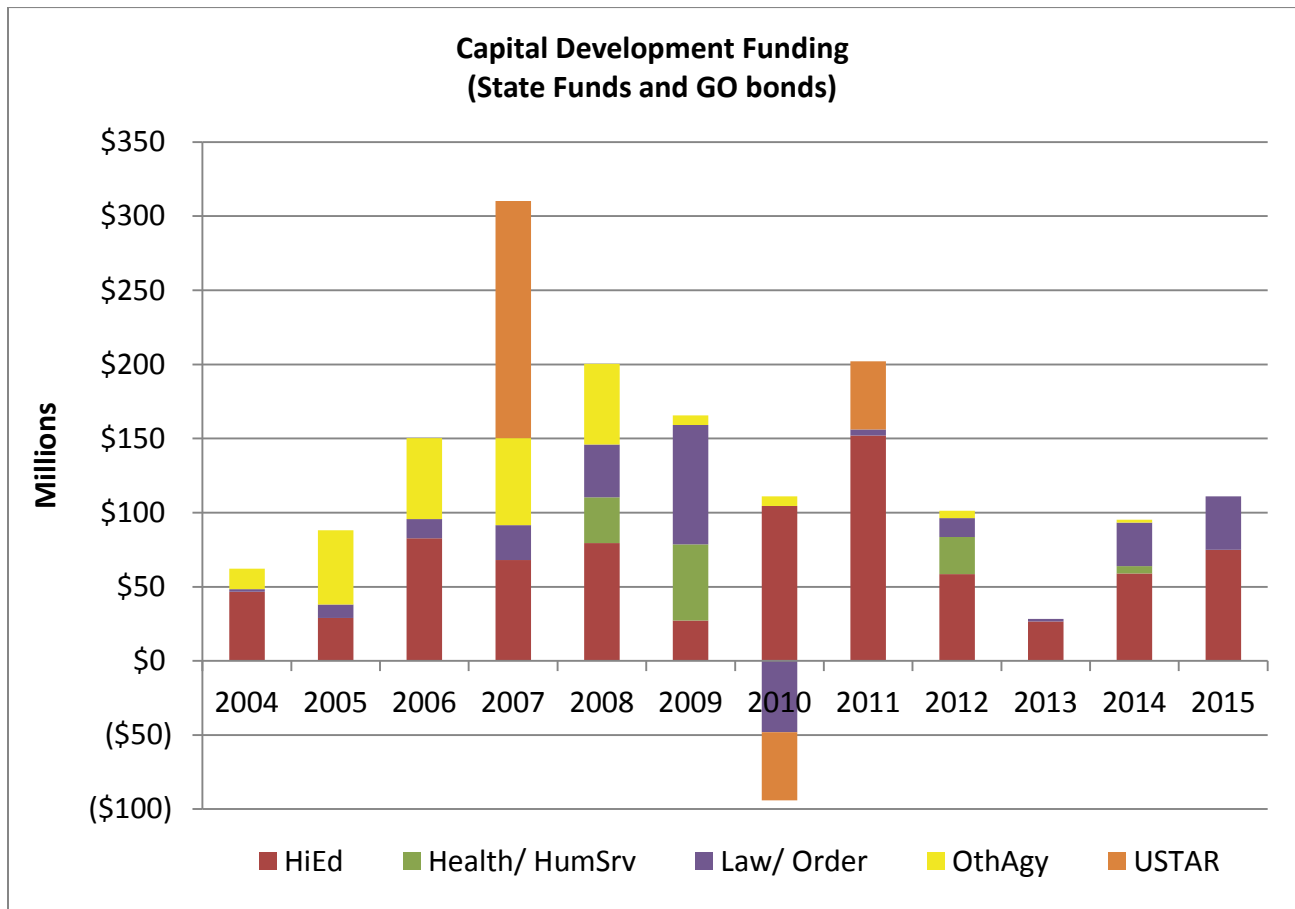


For this period there were only three years where capital improvement was funded at or above the 1.1 percent level (FY 2006 through 2008). The legislature amended statute for FY 2009 to 2014 to allow funding for capital improvements to drop below 1.1 percent of the replacement value and at the same time allow new capital development take place. There were approximately \$195 million capital improvement requests for the upcoming 2014 General Legislative Session. The Governor's budget for FY 2015 recommends one-time funding of \$59 million in addition to the ongoing funding of \$42 million for a total of \$101 million. This amount is 1.1 percent of the current replacement value of state buildings. National studies indicate that in order to adequately maintain public buildings, funding should fall between 2-4 percent.

Capital Development

Capital development requests are categorized as state funded and non-state funded. State funded requests include all projects with general fund revenues. Non-state funded requests use revenue bonds, donations, restricted funds, federal funds, or other non-tax funding. State funded requests are prioritized by the Building Board and recommended to the legislature in the Five-Year Building

Program. In 2006, the legislature appropriated \$30 million in ongoing funds for capital development but in 2008 the funding was rescinded to deal with declining revenues from the economic recession. The following chart shows the history of state funds and general obligation bonds that have been used for capital development from FY 2004 to 2014 by agency groups and the Governor's recommendation for FY 2015.



The negative amounts in 2010 represent the removal of funding for USTAR buildings and the Gunnison prison expansion. For the upcoming 2014 General Legislative Session, approximately \$666 million in capital development projects were requested. The Governor's budget recommends cash funding for a Weber State science building (\$57.4 million), the expansion of Gunnison prison (\$36 million), and a contribution to the Huntsman Cancer Institute for the expansion of the cancer research center at the University of Utah (\$17.5 million). No additional debt for capital development is in the Governor's FY 2015 budget.

Guiding Principles for Capital Improvement Budget and Policy Decisions

- Create funding streams that balance capital development with the maintenance of existing buildings – the state should not develop new buildings that cannot be maintained
- Projects receiving prior year funding should be given preference since the state has already incurred a cost
- All decisions should be made in the context of other state needs and in an open and collaborative process involving all stakeholders
- Encourage entities to make sustainable and responsible decisions around building maintenance

Areas Requiring Additional Research and Consideration

- Identification and prioritization of short-term and long-term needs and projects involving all stakeholders
- Creation of stable funding sources that will allow current and future building needs to be met
- Funding capital improvement at no less than the 1.1 percent level and consider funding at higher levels – i.e., 2-4 percent of the replacement value of all state-owned buildings
- Evaluate building maintenance processes to ensure state-owned buildings are being adequately maintained